

Opening Statement
The Honorable Bob Ney
Hearing on OFHEO's Report on Freddie Mac
Committee on Financial Services
Wednesday, January 21, 2004

I want to welcome our two witnesses this morning. I look forward to hearing their testimony on the Office of Federal Housing Enterprise Oversight's (OFHEO) December report on the Special Examination of Freddie Mac and the current state of GSE regulatory oversight.

OFHEO's recent report on the activities asserts that there were insufficient accounting, audit and internal controls in place to prevent earnings manipulation. The lack of control displayed by the internal accounting executives at Freddie is deeply troubling. The blatant manipulation of earnings to project consistent growth has turned the mortgage companies into ideal representatives of necessary regulatory reform.

As Chairman of the Housing Subcommittee, I have a keen interest in the strength of our secondary mortgage market. Fannie Mae and Freddie Mac were chartered by Congress to create a secondary trading market and to improve the functioning of home mortgage markets; as a result, the United States mortgage and credit markets are second to none.

A strong, vibrant housing market also is vital to the health of our economy. Recent studies have found that housing accounted for more than one-third of economic growth from 2000-2002. Many observers, including Federal Reserve chairman Alan Greenspan, have noted that refinancing provided crucial support to the economy during the past recession by enabling homeowners to reduce their debt burdens and maintain adequate levels of consumer spending by tapping into the equity of their homes.

There can be no doubt that we must take steps to strengthen the GSE by establishing a new 'world class' regulator. With the growing presence of GSEs in the capital markets and the possible risks they could pose to the financial system, reconstituting the safety and soundness regulator would be a prudent step. Such a move would send an important signal that we understand the importance of GSEs and the secondary mortgage markets in maintaining a stable economy.

As I have said before, I believe that there are several important components that are integral to providing enhanced regulation for GSEs while not impeding their ability to support affordable housing in America. Everyone agrees that strong regulatory oversight is critical to maintaining public confidence in this remarkable

system. However, I believe it is important to permit the housing GSEs to have sufficient flexibility to adapt to a changing mortgage market. The liquidity that Fannie and Freddie provide to the market should not be compromised by unnecessary government regulation.

It is in the public interest to continue to encourage homeownership and maintain the proven housing finance system we have today. Mistakes have certainly been made at Freddie Mac, but I'm not convinced that means we must throw out the whole system. The GSEs deserve some credit for the vibrancy of our country's secondary mortgage market.

For more than 70 years, federal policy has encouraged homeownership. As we move forward, we must make certain that we do not begin to close the door to homeownership and curtail many Americans from realizing the American Dream.

Again, Mr. Chairman, I want to thank you for holding this hearing and our witnesses for taking the time to be here. I look forward to their testimony.